

**LYRIC OPERA OF CHICAGO**  
Chicago, Illinois

**FINANCIAL STATEMENTS**  
April 30, 2012 and 2011

LYRIC OPERA OF CHICAGO

Chicago, Illinois

FINANCIAL STATEMENTS

April 30, 2012 and 2011

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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
Lyric Opera of Chicago  
Chicago, Illinois

We have audited the accompanying statements of financial position of Lyric Opera of Chicago (the Opera) as of April 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Opera's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lyric Opera of Chicago as of April 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
Crowe Horwath LLP

Chicago, Illinois  
July 19, 2012

LYRIC OPERA OF CHICAGO  
STATEMENTS OF FINANCIAL POSITION  
April 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 4,643,124	\$ 2,557,937
Short-Term Investments	20,179,125	28,781,352
Ticket and Other Receivables	2,754,093	1,427,957
Pledge and Bequest Receivables, net	4,690,479	6,254,192
Deferred Production Costs and Other Assets	<u>2,700,630</u>	<u>1,978,322</u>
Total Current Assets	34,967,451	40,999,760
Long-Term Assets		
Pledge and Bequest Receivables, net	18,358,292	19,598,416
Long-Term Investments	154,369,785	162,416,885
Deferred Bond Issuance Costs, net	1,102,567	1,179,624
Property and Equipment, net	<u>49,437,630</u>	<u>50,668,482</u>
Total Long-Term Assets	<u>223,268,274</u>	<u>233,863,407</u>
Total Assets	<u>\$ 258,235,725</u>	<u>\$ 274,863,167</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts Payable and Other Liabilities	\$ 4,622,295	\$ 5,434,641
Deferred Ticket and Other Revenue	12,637,579	12,710,639
Severance Plans	282,740	268,261
Interest Rate Swap	<u>1,446,050</u>	<u>1,444,296</u>
Total Current Liabilities	18,988,664	19,857,837
Long-Term Liabilities		
Severance Plans	3,372,390	2,947,718
Bonds Payable	65,700,000	65,700,000
Interest Rate Swap	<u>10,715,394</u>	<u>5,099,710</u>
Total Long-Term Liabilities	<u>79,787,784</u>	<u>73,747,428</u>
Total Liabilities	98,776,448	93,605,265
Net Assets		
Unrestricted	92,925,546	109,090,425
Temporarily Restricted	43,820,199	49,476,456
Permanently Restricted	<u>22,713,532</u>	<u>22,691,021</u>
Total Net Assets	<u>159,459,277</u>	<u>181,257,902</u>
Total Liabilities and Net Assets	<u>\$ 258,235,725</u>	<u>\$ 274,863,167</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO  
 STATEMENTS OF ACTIVITIES  
 For the Years Ended April 30, 2012 and April 30, 2011

	<u>2012</u>	<u>2011</u>
<b>Changes in Unrestricted Net Assets</b>		
<b>Operating</b>		
Revenue and Support		
Revenue		
Ticket Sales	\$ 25,029,859	\$ 23,775,118
Spending Draw	4,654,847	4,412,128
Investment Income (Loss)	(33,770)	225,965
Other Operating Revenue	<u>3,663,518</u>	<u>3,915,802</u>
Total Revenue	<u>33,314,454</u>	<u>32,329,013</u>
Support		
Contributions and Fundraising Revenue	15,858,828	12,763,788
Less Special Event Expenses	(3,914,968)	(2,117,593)
Net Assets Released from Restriction	<u>9,978,422</u>	<u>8,038,611</u>
Total Support	<u>21,922,282</u>	<u>18,684,806</u>
Total Operating Revenue and Support	<u>55,236,736</u>	<u>51,013,819</u>
Expenses		
Artistic, Production and Promotional	49,527,893	46,331,103
Administration	5,727,658	5,569,146
Development	<u>2,842,990</u>	<u>2,551,319</u>
Total Expenses	<u>58,098,541</u>	<u>54,451,568</u>
Deficiency from Operations before Transfers	<u>(2,861,805)</u>	<u>(3,437,749)</u>
Board Authorized Transfers		
Fixed Asset Additions and Facility Reserves	(883,877)	(850,708)
Campaign for Excellence	<u>3,745,682</u>	<u>4,288,457</u>
Total Transfers	<u>2,861,805</u>	<u>3,437,749</u>
Excess from Operations	<u>\$ -</u>	<u>\$ -</u>

(Continued)

LYRIC OPERA OF CHICAGO  
STATEMENTS OF ACTIVITIES  
For the Years Ended April 30, 2012 and April 30, 2011

	<u>2012</u>	<u>2011</u>
<b>Changes in Unrestricted Net Assets</b>		
<b>Non-operating Unrestricted</b>		
Revenue and Support		
Contributions	\$ 2,990,480	\$ 665,878
Spending Draw	2,437,656	2,764,006
Investment Income (Loss), net of Spending Draw	(10,788,022)	10,022,539
Unrealized Loss on Interest Rate Swap	(5,617,438)	(487,429)
Change in Severance Plans' Valuation	(527,794)	365,623
Other Revenue	112,209	16,616
Net Assets Released from Restriction	<u>3,582,095</u>	<u>3,866,229</u>
Total Revenue and Support	<u>(7,810,814)</u>	<u>17,213,462</u>
Expenses		
Depreciation	2,996,099	2,949,366
Interest Expense and Debt Related Fees	2,370,434	2,502,292
Other Expenses	<u>125,727</u>	<u>155,290</u>
Total Expenses	<u>5,492,260</u>	<u>5,606,948</u>
Change in Other Unrestricted Net Assets before Transfers	<u>(13,303,074)</u>	<u>11,606,514</u>
<b>Transfers</b>		
Fixed Asset Additions and Facility Reserves	883,877	850,708
Campaign for Excellence	<u>(3,745,682)</u>	<u>(4,288,457)</u>
Total Transfers	<u>(2,861,805)</u>	<u>(3,437,749)</u>
Change in Other Unrestricted Net Assets	<u>(16,164,879)</u>	<u>8,168,765</u>
Change in Unrestricted Net Assets	<u>(16,164,879)</u>	<u>8,168,765</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	8,672,996	12,243,619
Investment Income (Loss)	(768,736)	7,310,865
Net Assets Released from Restriction	<u>(13,560,517)</u>	<u>(11,904,840)</u>
Change in Temporarily Restricted Net Assets	<u>(5,656,257)</u>	<u>7,649,644</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Contributions	<u>22,511</u>	<u>43,168</u>
Change in Net Assets	(21,798,625)	15,861,577
Net Assets at Beginning of Year	<u>181,257,902</u>	<u>165,396,325</u>
Net Assets at End of Year	<u>\$ 159,459,277</u>	<u>\$ 181,257,902</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended April 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ (21,798,625)	\$ 15,861,577
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation and Amortization	3,073,156	3,026,424
Net Realized and Unrealized Losses (Gains) on Investments	6,074,829	(23,443,971)
Net Interest Rate Swap Settlements	1,458,869	1,446,745
Unrealized Losses on Interest Rate Swap	5,617,438	487,429
Contributions Permanently Restricted for Endowment	(22,511)	(43,168)
Decrease in Unrestricted and Temporarily Restricted Pledge and Bequest Receivables	2,776,348	456,770
Increase in Ticket and Other Receivables	(1,326,136)	(22,483)
(Increase) Decrease in Deferred Production Costs and Other Assets	(722,308)	384,093
(Decrease) Increase in Accounts Payable and Other Liabilities	(812,346)	439,600
(Decrease) Increase in Deferred Ticket and Other Revenue	(73,060)	52,632
Increase (Decrease) in Severance Plans	<u>439,151</u>	<u>(148,760)</u>
Net Cash Used In Operating Activities	(5,315,195)	(1,503,112)
 <b>Cash Flows from Investing Activities</b>		
Sale of Investments	31,945,962	73,790,158
Purchase of Investments	(21,371,464)	(69,427,807)
Net Interest Rate Swap Settlements	(1,458,869)	(1,446,745)
Fixed Asset Additions:		
Facilities	(1,241,084)	(704,941)
Other Assets	<u>(524,163)</u>	<u>(270,424)</u>
Net Cash Provided By Investing Activities	7,350,382	1,940,241
 <b>Cash Flows from Financing Activities</b>		
Contributions Permanently Restricted for Endowment	<u>50,000</u>	<u>411,138</u>
Net Cash Provided by Financing Activities	50,000	411,138
 Net Increase in Cash and Cash Equivalents	2,085,187	848,267
 Cash and Cash Equivalents at Beginning of Year	<u>2,557,937</u>	<u>1,709,670</u>
 <b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 4,643,124</u>	<u>\$ 2,557,937</u>
 Supplemental Disclosure of Cash Flow Information		
Interest Paid	<u>\$ 1,713,598</u>	<u>\$ 1,776,651</u>

See accompanying notes to financial statements.

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities:** Lyric Opera of Chicago (the Opera) is a not-for-profit corporation incorporated in the State of Illinois. The Opera's primary purpose is to sponsor, produce, and encourage opera and musical performances. The Opera's operations include international grand opera, educational and community activities, other musical performances and the training for young artists through the Patrick G. and Shirley W. Ryan Opera Center (the Ryan Opera Center).

**Basis of Accounting:** The accounting records of the Opera are maintained on the accrual basis and include the operations of the Ryan Opera Center.

**Basis of Presentation:** Resources of the Opera are classified for reporting purposes into the following three net asset categories according to the existence or absence of donor-imposed restrictions:

- **Unrestricted Net Assets** - net assets which are not subject to donor-imposed restrictions including the carrying value of physical properties (land, facilities and equipment). Items which increase or decrease this net asset category include revenue—principally ticket sales and investment income unless donor-restricted, and all expenses of the Opera. This category also includes unrestricted gifts and restricted gifts whose donor-imposed or time restrictions were met during the fiscal year.

Within unrestricted net assets are:

- Operating activities - include all unrestricted operating revenue and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating activities, and distributions and transfers in accordance with the Opera's spending policies and Campaign for Excellence.
- Non-operating activities – include unrestricted investment returns in excess of the Opera's spending policy, capitalized property and equipment and its related depreciation, interest expense and other bond costs, and the actuarial change in severance plans' valuation. Unrestricted charitable gift annuities are recorded in Revenue and Support as contributions.
- **Temporarily Restricted Net Assets** - net assets subject to donor-imposed restrictions which may be met either by actions of the Opera or the passage of time. Items which increase this net asset category are gifts for which donor-imposed restrictions have not been met and accumulated income on permanently restricted net assets.
- **Permanently Restricted Net Assets** - net assets subject to donor-imposed restrictions stipulating the corpus be held in perpetuity.

**Cash and Cash Equivalents:** Cash and cash equivalents consist of highly liquid, interest-bearing, investments with original maturities of less than three months.



LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Pledge and Bequest Receivables:** Contributions, including cash or other assets, as well as unconditional promises to give, are recognized in the period received.

Contributions are classified as unrestricted or restricted support based on the donor's intent. When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is met), the Opera reclassifies the temporarily restricted net assets to unrestricted net assets and reports these assets as released from restriction. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Opera classifies the support as unrestricted, except for production sponsorship where the contribution is classified as temporarily restricted until the opening of the production.

As of April 30, 2012 and 2011, contributors to the Opera have made unconditional promises to give, which are due as follows:

<u>April 30, 2012</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 2,052,908	\$ 3,021,757	\$ 8,000	\$ 5,082,665
One to five years	1,108,000	11,486,092	-	12,594,092
More than five years	-	100,000	-	100,000
With no due date	-	<u>11,225,635</u>	<u>21,553</u>	<u>11,247,188</u>
Gross	3,160,908	25,833,484	29,553	29,023,945
Less discount	48,490	4,534,428	256	4,583,174
Less allowance	<u>58,000</u>	<u>1,321,000</u>	<u>13,000</u>	<u>1,392,000</u>
Net	<u>\$ 3,054,418</u>	<u>\$ 19,978,056</u>	<u>\$ 16,297</u>	<u>\$ 23,048,771</u>
<u>April 30, 2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 1,698,181	\$ 5,003,882	\$ 28,000	\$ 6,730,063
One to five years	1,523,900	12,112,683	10,000	13,646,583
More than five years	-	750,000	-	750,000
With no due date	-	<u>11,299,898</u>	<u>20,024</u>	<u>11,319,922</u>
Gross	3,222,081	29,166,463	58,024	32,446,568
Less discount	86,395	5,026,327	1,238	5,113,960
Less allowance	<u>78,000</u>	<u>1,389,000</u>	<u>13,000</u>	<u>1,480,000</u>
Net	<u>\$ 3,057,686</u>	<u>\$ 22,751,136</u>	<u>\$ 43,786</u>	<u>\$ 25,852,608</u>

Unconditional pledges expected to be received over more than one year are recorded by the Opera at their net realizable value using a discount rate equivalent to treasury yields.

**Deferred Production Costs:** Expenditures for scenery, costumes, and stage properties are recorded as deferred production costs if specifically related to productions of future opera seasons and expensed if used in productions of the current opera season.

**Short-Term Investments:** Short-term investments consist of a short-term fixed income mutual fund.

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Long-Term Investments:** Long-term investments, consisting primarily of publicly traded equity and fixed income mutual funds, alternative investments and real assets, are stated at fair value. For investment purposes, unrestricted funds are commingled with endowment funds to constitute the managed portfolio.

**Property and Equipment:** Purchases of property and equipment greater than \$3,500 that have a useful life of more than one year are capitalized at their original cost or estimated fair value at the date of donation. Provisions for depreciation are computed on the straight-line method based on estimated useful lives ranging from three to forty years.

Property and equipment consist of:

	<u>2012</u>	<u>2011</u>
Land	\$ 696,577	\$ 696,577
Equipment	7,468,835	6,975,247
Facilities	88,409,152	87,168,068
Less: accumulated depreciation	<u>47,136,934</u>	<u>44,171,410</u>
Net	<u>\$ 49,437,630</u>	<u>\$ 50,668,482</u>

Donated assets, or assets acquired with gifts restricted to the purchase of long-lived assets, are reclassified to unrestricted net assets as depreciation is recognized.

On an ongoing basis, the Opera reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. As of April 30, 2012 and 2011, management believes that no impairments existed.

**Deferred Ticket Revenue:** Deferred ticket revenue relates to ticket sales for the following opera season.

**Interest Rate Swap:** The Opera entered into an interest rate swap agreement as part of its interest rate risk management strategy, not for speculation. Although the Opera believes the derivative would qualify as a hedge, for simplicity it has elected to report the instrument as a freestanding derivative.

**Donated Services and Materials:** The Opera records various types of in-kind support, including contributed services, equipment, and other goods. Contributions of tangible assets and services are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets. Donated services and materials were approximately \$1,343,000 and \$733,000 for the years ended April 30, 2012 and 2011, respectively.

During the years ended April 30, 2012 and 2011, substantial amounts of time were donated by volunteers to the Opera in its fundraising and outreach efforts. In accordance with accounting principles generally accepted in the United States of America such amounts were not recorded as contributions in the financial statements.

**Realized and Unrealized Investment Gains (Losses):** Changes in the fair value of investments are reported as unrestricted realized and unrealized investment gains or losses unless a donor temporarily restricts income for a specific purpose. If the earnings are on permanently restricted assets and not yet appropriated for expenditure, changes in the fair value of investments are reported as temporarily restricted.

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LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Other Operating Revenue:** Other operating revenue includes revenue from various sources such as facilities rentals, concessions, production rentals, and educational activities.

**Net Asset Transfers:** Net asset transfers represent transfers of Board approved reserves for operating support, maintenance of the facility, funding for production storage needs, and for fixed asset additions funded through the annual operating budget.

**Advertising Costs:** Advertising costs are either expensed as incurred or charged to prepaid expenses when directly related to ticket sales for the following fiscal year. Advertising costs charged to expense were \$2,365,438 and \$1,781,777 for the years ended April 30, 2012 and 2011, respectively. Prepaid advertising expenses, to be expensed in the following fiscal year, were \$507,041 and \$391,985 as of April 30, 2012 and 2011, respectively.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

**NOTE B – INCOME TAXES**

The Opera is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Opera has concluded there were no material uncertain tax positions nor does the Opera expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Opera would recognize interest and penalties related to unrecognized tax positions in interest and income tax expense, respectively. However, the Opera has no amounts accrued for interest or penalties as of April 30, 2012 and 2011. There are no on-going federal, state or local tax audits, however, the Opera's tax returns for 2009 and subsequent years remain open to examination.

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Opera's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

FASB establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates (Level 2 inputs). The fair value of investments in limited liability partnerships are based on valuations provided by the external investment manager as of the date of their most recent audited financial statements, adjusted for cash receipts, cash disbursements, and other anticipated income or loss through April 30 (Level 2 and Level 3 inputs).

The Opera follows guidance related to fair value measurements and disclosures of investments in certain entities which do not have a quoted market price but which calculate net asset value (NAV) per share or its equivalent. As a practical expedient, the Opera is permitted to measure the fair value of an investment in an investee based on the investee's NAV per share or its equivalent. As a result of applying the practical expedient, the fair value of the Opera's investments in certain funds was determined using the NAV and certain investments were transferred from Level 3 to Level 2.

**Investment Strategies and Valuation Inputs**

**Fixed Income Securities** consist of mutual funds which are primarily invested in debt securities. The fair value of mutual funds, which are readily marketable, is determined by obtaining quoted prices on nationally recognized securities exchanges.

**Equity Securities** consist of mutual funds, common trust funds, and a limited partnership, all of which are primarily invested in equity securities. The fair value of mutual funds, which are readily marketable, is determined by obtaining quoted prices on nationally recognized securities exchanges. The Opera has full transparency to the holdings of the common trust funds, and the fair value of these investments and the limited partnership investment has been determined by the managers based on the market prices of the underlying holdings. The limited partnership is invested primarily in emerging market equity securities.

**Hedged Equities (Long/Short)** consists of funds which seek above-average returns in all market environments. The funds invest in both long and short securities to mitigate market risk. Certain investment funds concentrate their investment programs in specific industries, sectors or market capitalization. In addition, the funds may utilize leverage, options, futures, commodities or other derivatives and may invest in non-U.S. securities and illiquid securities.

**Absolute Return** consists of funds which seek to generate attractive, risk-adjusted returns across all market environments. In pursuing this investment objective, the funds generally employ multiple strategies, including without limitation, (i) credit and volatility-driven strategies such as the trading of convertible, asset-backed, mortgage-backed, high-yield and distressed instruments, credit, fixed-income and capital structure arbitrage, and private placements, (ii) equity strategies, including fundamental and quantitative long-short, long only and short only equity trades, and relative value-driven equity strategies and (iii) investments in commodity derivatives and physical commodities.

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)**

**Real Assets** consists of funds which invest in real estate, natural resources and credit.

- (1) Investments in real estate seek to capitalize on relative value and opportunities across various property types, geographic regions and strategies through value-added real estate investments primarily in the United States.
- (2) Natural resources consist of global investments in commodities such as metals and mining, gold and other precious metals and oil and gas exploration and production. Holdings may be comprised of equities, ETFs, debt, illiquid investments, derivatives, commodity futures and commodity future options.
- (3) Credit funds pursue investments in distressed residential mortgage market and opportunistic investments in corporate credit, real estate and asset-based lending. The fund may engage in hedging activities, including interest rate hedging, currency hedging, short sales, foreign exchange transactions, and other derivative contracts or instruments.

**Assets Held in Trust** – The Opera is the beneficiary of two endowment funds managed by the Chicago Community Trust. The fair value of beneficial interests is determined based upon the Opera's proportional interest in the fair value of the underlying trust assets. The underlying trust assets are either readily marketable and have fair values which are determined by obtaining quoted market prices in active markets, or are determined by the trust using information provided by the related investment manager (Level 3 inputs)[income approach].

**Interest Rate Swap** – The fair value of the swap is computed using the present value of cash flows based on the notional amount, term, and fixed and variable interest rates contained in the contract. The model prices the instrument at an exit value were the agreement terminated at the date of valuation. Significant fair value inputs can be verified and do not involve management judgments (Level 2 inputs)[market approach].

**Alternative Investments** consist of the hedged equities and absolute return investment categories. In addition, real assets of \$10,682,547 and \$7,695,716 as of April 30, 2012 and 2011, respectively are considered alternative investments. The Opera generally uses the NAV, but incorporates information such as historical and current performance of underlying assets, liquidity terms of the investment agreements, completed or pending transactions in the underlying or a comparable investment, and overall market conditions in determining valuations. The managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, or appraisals. In some instances, the Opera possesses the ability to redeem its investment at the NAV at or near the measurement date. In some instances, however, restrictions on redemptions, such as notice requirements, lock-ups and gates, may be in place such that investment redemption at NAV is not possible at the measurement date (Level 3 inputs)[income approach].

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

The following table discloses additional information about investments recorded at fair value at April 30, 2012 and 2011:

<u>April 30, 2012</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Estimated Remaining Life</u>
Fixed Income Securities	\$ 26,434,725	\$ -	Daily	n/a
Equity Securities	73,885,618	-	Daily to monthly	n/a
Hedged Equities	22,458,612	-	Quarterly to two years	n/a
Absolute Return	32,984,150	-	Quarterly to three years	n/a
Real Assets				
Credit and Real Estate	7,778,982	5,191,436	Not permitted	6-13 years
Natural Resources	7,242,392	-	Monthly to quarterly	n/a
Investment Assets Held in Trust	<u>3,764,431</u>	<u>-</u>	Not permitted	n/a
<b>Total Investments</b>	<b><u>\$ 174,548,910</u></b>	<b><u>\$ 5,191,436</u></b>		
<u>April 30, 2011</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Estimated Remaining Life</u>
Fixed Income Securities	\$ 35,146,973	\$ -	Daily	n/a
Equity Securities	77,511,136	-	Daily to monthly	n/a
Hedged Equities	26,943,625	-	Quarterly to two years	n/a
Absolute Return	35,090,702	-	Quarterly to three years	n/a
Real Assets				
Credit and Real Estate	5,697,891	4,575,268	Not permitted	7-11 years
Natural Resources	6,944,338	-	Monthly to quarterly	n/a
Investment Assets Held in Trust	<u>3,863,572</u>	<u>-</u>	Not permitted	n/a
<b>Total Investments</b>	<b><u>\$ 191,198,237</u></b>	<b><u>\$ 4,575,268</u></b>		

At April 30, 2012, \$2,691,736 of the Opera's alternative investments are in illiquid, special investments. Unfunded commitments represent capital calls which can be made at the discretion of the general partner within contractual limits. These commitments do not represent obligations required to be accrued on the Statements of Financial Position.

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

Assets and liabilities measured on a recurring basis at fair value at April 30, 2012 and 2011, are summarized below:

<u>April 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Current Assets:</b>				
Fixed Income Securities	\$ 19,936,585	\$ -	\$ -	\$ 19,936,585
Equity Securities	<u>242,540</u>	<u>-</u>	<u>-</u>	<u>242,540</u>
Total Current Assets	<u>20,179,125</u>	<u>-</u>	<u>-</u>	<u>20,179,125</u>
<b>Long-Term Assets:</b>				
Fixed Income Securities	6,498,140	-	-	6,498,140
Equity Securities				
Large Cap	12,703,830	11,301,471	-	24,005,301
Small Cap	7,273,861	4,902,652	-	12,176,513
International	22,148,884	15,312,380	-	37,461,264
Hedged Equities	-	9,564,148	12,894,464	22,458,612
Absolute Return	-	10,488,235	22,495,915	32,984,150
Real Assets	-	7,204,847	7,816,527	15,021,374
Investment Assets Held In Trust	<u>-</u>	<u>-</u>	<u>3,764,431</u>	<u>3,764,431</u>
Total Long-Term Assets	<u>48,624,715</u>	<u>58,773,733</u>	<u>46,971,337</u>	<u>154,369,785</u>
Total Assets	<u>\$ 68,803,840</u>	<u>\$ 58,773,733</u>	<u>\$ 46,971,337</u>	<u>\$ 174,548,910</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Current Liabilities:</b>				
Interest Rate Swap	\$ -	\$ 1,446,050	\$ -	\$1,446,051
<b>Long-Term Liabilities:</b>				
Interest Rate Swap	<u>-</u>	<u>10,715,394</u>	<u>-</u>	<u>10,715,394</u>
Total Liabilities	<u>\$ -</u>	<u>\$ 12,161,444</u>	<u>\$ -</u>	<u>\$ 12,161,445</u>

LYRIC OPERA OF CHICAGO  
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April 30, 2012 and 2011

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

<u>April 30, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Current Assets:</b>				
Fixed Income Securities	\$ 28,781,352	\$ -	\$ -	\$ 28,781,352
<b>Long-Term Assets:</b>				
Fixed Income Securities	6,365,621	-	-	6,365,621
Equity Securities				
Large Cap	11,718,578	10,786,298	-	22,504,876
Small Cap	7,347,922	5,183,056	-	12,530,978
International	26,499,061	15,976,221	-	42,475,282
Hedged Equities	-	4,798,222	22,145,403	26,943,625
Absolute Return	-	10,754,732	24,335,970	35,090,702
Real Assets	-	6,908,838	5,733,391	12,642,229
Investment Assets Held In Trust	-	-	<u>3,863,572</u>	<u>3,863,572</u>
Total Long-Term Assets	<u>51,931,182</u>	<u>54,407,367</u>	<u>56,078,336</u>	<u>162,416,885</u>
<b>Total Assets</b>	<b><u>\$ 80,712,534</u></b>	<b><u>\$ 54,407,367</u></b>	<b><u>\$ 56,078,336</u></b>	<b><u>\$ 191,198,237</u></b>
<b>Current Liabilities:</b>				
Interest Rate Swap	\$ -	\$ 1,444,296	\$ -	\$ 1,444,296
<b>Long-Term Liabilities:</b>				
Interest Rate Swap	-	5,099,710	-	5,099,710
<b>Total Liabilities</b>	<b><u>\$ -</u></b>	<b><u>\$ 6,544,006</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 6,544,006</u></b>

The table below reconciles beginning and ending balances for Level 3 assets for the years ended April 30, 2012 and 2011:

<u>Year Ended</u> <u>April 30, 2012</u>	<u>Hedged</u> <u>Equities</u>	<u>Absolute</u> <u>Return</u>	<u>Real</u> <u>Assets</u>	<u>Assets Held</u> <u>In Trust</u>	<u>Total</u>
May 1, 2011	\$ 22,145,403	\$ 24,335,970	\$ 5,733,391	\$ 3,863,572	\$ 56,078,336
Transfers to Level 2	(9,326,156)	-	-	-	(9,326,156)
Purchases	-	-	2,929,909	45,100	2,975,009
(Sales)	(59,281)	(2,385,500)	(1,293,553)	(182,253)	(3,920,587)
Unrealized gains	134,498	713,776	66,634	38,012	952,920
Realized gains (losses)	-	(168,331)	380,146	-	211,815
<b>April 30, 2012</b>	<b><u>\$ 12,894,464</u></b>	<b><u>\$ 22,495,915</u></b>	<b><u>\$ 7,816,527</u></b>	<b><u>\$ 3,764,431</u></b>	<b><u>\$ 46,971,337</u></b>



LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)**

Year Ended <u>April 30, 2011</u>	<u>Hedged Equities</u>	<u>Absolute Return</u>	<u>Real Assets</u>	<u>Assets Held In Trust</u>	<u>Total</u>
May 1, 2010	\$ 14,084,692	\$ 29,300,429	\$ 1,719,668	\$ 3,597,324	\$ 48,702,113
Transfers to Level 2	(1,253,365)	(5,816,660)	-	-	(7,070,025)
Purchases	7,000,000	-	4,235,112	45,377	11,280,489
(Sales)	(68,529)	(2,519,708)	(2,105,315)	(182,881)	(4,876,433)
Unrealized gains	2,379,019	3,170,621	1,204,657	403,752	7,158,049
Realized gains	<u>3,586</u>	<u>201,288</u>	<u>679,269</u>	<u>-</u>	<u>884,143</u>
April 30, 2011	<u>\$ 22,145,403</u>	<u>\$ 24,335,970</u>	<u>\$ 5,733,391</u>	<u>\$ 3,863,572</u>	<u>\$ 56,078,336</u>

Transfers between Level 3 and Level 2 are based on changes in liquidity terms for the respective investment for the years ended April 30, 2012 and April 30, 2011 and are recognized at those dates. The realized and unrealized gains on Level 3 investments still held at April 30, 2012 were \$1,164,734.

**Investment Returns**

Investment return for the years ended April 30, 2012 and 2011 is as follows:

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Total</u>
	<u>Operating</u>	<u>Non-Operating</u>		
<u>2012</u>				
Interest and dividends	\$ 128,916	\$ 1,673,387	\$ 391,307	\$ 2,193,610
Net realized and unrealized losses	(162,686)	(4,874,169)	(1,037,974)	(6,074,829)
Investment expenses	<u>-</u>	<u>(494,737)</u>	<u>(122,069)</u>	<u>(616,806)</u>
Total return on investments	(33,770)	(3,695,519)	(768,736)	(4,498,025)
Board authorized spending draw				
Spending draw – used for unrestricted operating activities	-	(4,654,847)	-	(4,654,847)
Spending draw – used for unrestricted non-operating activities	<u>-</u>	<u>(2,437,656)</u>	<u>-</u>	<u>(2,437,656)</u>
Total board authorized spending draw	<u>-</u>	<u>(7,092,503)</u>	<u>-</u>	<u>(7,092,503)</u>
Total return on investments, net of spending draw	<u>\$ (33,770)</u>	<u>\$ (10,788,022)</u>	<u>\$ (768,736)</u>	<u>\$ (11,590,528)</u>

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

**NOTE C – INVESTMENTS AND FAIR VALUE MEASUREMENT (Continued)**

	Unrestricted		Temporarily Restricted	Total
	Operating	Non-Operating		
<u>2011</u>				
Interest and dividends	\$ 118,337	\$ 1,400,059	\$ 495,704	\$ 2,014,100
Net realized and unrealized gains	107,642	16,308,066	7,028,263	23,443,971
Investment expenses	(14)	(509,452)	(213,102)	(722,568)
Total return on investments	225,965	17,198,673	7,310,865	24,735,503
Board authorized spending draw				
Spending draw – used for unrestricted operating activities	-	(4,412,128)	-	(4,412,128)
Spending draw – used for unrestricted non-operating activities	-	(2,764,006)	-	(2,764,006)
Total board authorized spending draw	-	(7,176,134)	-	(7,176,134)
Total return on investments, net of spending draw	\$ 225,965	\$ 10,022,539	\$ 7,310,865	\$ 17,559,369

**NOTE D – ENDOWMENT**

The Opera's endowment is comprised of donor-restricted endowment funds. Related net assets are classified and reported based on the existence or absence of donor-imposed restrictions.

The Opera has interpreted the State of Illinois' Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Opera classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment plus the original value of subsequent gifts to the permanent endowment. Accumulations to the donor-restricted permanent endowment net of Board authorized spending draws are classified as temporarily restricted net assets.

In accordance with UPMIFA, the Opera considers the following factors, among others, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Opera and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Opera; and
- The investment policies of the Opera.

The Investment Committee of the Board of Directors establishes policies and procedures concerning the management of endowment funds. These policies establish asset classes that are deemed suitable for investment of endowment funds which currently include investments in domestic and international equities, fixed income, alternative strategies and real assets.

Endowment funds, commingled with other unrestricted funds, are managed on a total return basis taking into consideration the need to maintain the purchasing power of the managed portfolio as well as the need to support the Opera's mission.

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

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**NOTE D – ENDOWMENT** (Continued)

Risk and return expectations for the managed portfolio are modeled using historical rates of return and volatility measures for various asset allocation scenarios. Investments are made in various asset classes based on policy requirements for a highly diversified portfolio in accordance with asset allocation guidelines. Actual allocations to an asset class are compared to target allocations and rebalanced as appropriate. The performance of the managed portfolio is reported on a monthly basis and the annual real return objective is 5%.

The Opera's Board of Directors has approved a spending policy which allows for the transfer of 5% of the trailing twelve quarter balance of the managed portfolio at December 31 of the previous fiscal year, including endowment balances, to be used to support operations and fund debt service for both fiscal 2012 and fiscal 2011. The spending rate approximates the return objective of the fund allowing for the preservation of purchasing power and growth of the managed portfolio through investment returns in excess of the objective and new gifts.

Endowment net asset composition by type of fund as of April 30, 2012 and 2011:

<u>April 30, 2012</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Pledges receivable, net	\$ -	\$ 29,297	\$ 29,297
Donor restricted endowment funds	17,183,195	22,671,235	39,854,430
Interfund receivable	<u>-</u>	<u>13,000</u>	<u>13,000</u>
Total net assets	<u>\$ 17,183,195</u>	<u>\$ 22,713,532</u>	<u>\$39,896,727</u>
<u>April 30, 2011</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Pledges receivable, net	\$ -	\$ 56,786	\$ 56,786
Donor restricted endowment funds	19,737,037	22,621,235	42,358,272
Interfund receivable	<u>-</u>	<u>13,000</u>	<u>13,000</u>
Total net assets	<u>\$ 19,737,037</u>	<u>\$ 22,691,021</u>	<u>\$42,428,058</u>

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

**NOTE D – ENDOWMENT** (Continued)

Changes in endowment net assets for the years ended April 30, 2012 and 2011:

<u>Year Ended April 30, 2012</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ 19,737,037	\$ 22,691,021	42,428,058
Investment return			
Investment income	253,335	-	253,335
Net depreciation (realized and unrealized)	<u>(1,031,307)</u>	-	<u>(1,031,307)</u>
Total investment return	(777,972)	-	(777,972)
Contributions	-	22,511	22,511
Appropriation of endowment assets for expenditures	<u>(1,775,870)</u>	-	<u>(1,775,870)</u>
Net assets at end of year	<u>\$ 17,183,195</u>	<u>\$ 22,713,532</u>	<u>\$39,896,727</u>
<u>Year Ended April 30, 2011</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at beginning of year	\$ 14,242,133	\$ 22,647,853	\$36,889,986
Investment return			
Investment income	262,475	-	262,475
Net appreciation (realized and unrealized)	<u>7,011,864</u>	-	<u>7,011,864</u>
Total investment return	7,274,339	-	7,274,339
Contributions	-	43,168	43,168
Appropriation of endowment assets for expenditures	<u>(1,779,435)</u>	-	<u>(1,779,435)</u>
Net assets at end of year	<u>\$ 19,737,037</u>	<u>\$ 22,691,021</u>	<u>\$42,428,058</u>

The fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the Opera to retain as a fund of perpetual duration. There were no deficiencies at April 30, 2012 or 2011.

**NOTE E – EMPLOYEE RETIREMENT BENEFITS**

**Defined Contribution Pension Plan:** The Opera maintains a qualified, non-contributory, defined contribution pension plan covering all full-time administrative non-union employees. Contributions to the plan are made annually based on a formula including such factors as age, salary, and length of service. Total pension expense was \$423,109 and \$363,559 for the years ended April 30, 2012 and 2011, respectively.

**401(k) Plan:** The Opera also provides a 401(k) plan which allows eligible full-time administrative non-union employees to make elective deferrals. The Opera makes a matching contribution based on a percentage of each employee's deferral. For the years ended April 30, 2012 and 2011, the Opera contributed \$76,522 and \$74,144, respectively.

**Multi-employer Retirement Plans:** The Opera contributes to a number of defined benefit multi-employer pension plans under the terms of collective-bargaining agreements which cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following respects:

- a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c) If the Opera chooses to stop participating in any of its multi-employer plans, the Opera may be required to pay those plans an amount based on the Opera's proportionate share of unfunded vested plan benefits, referred to as a withdrawal liability.

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
April 30, 2012 and 2011

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**NOTE E – EMPLOYEE RETIREMENT BENEFITS** (Continued)

The Opera participates in eight multi-employer defined benefit plans, two of which are material to the Opera’s financial position. The Opera’s participation in the plans which cover Orchestra and Stagehand employees is outlined in the table below. “EIN/Pension Plan Number” provides the Employee Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available is for the plan’s year-end. The zone status is based on information that The Opera received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. “FIP/RP Status” indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

	<u>Orchestra</u>	<u>Stagehands</u>
Pension Fund	American Federation of Musicians and Employers’ Pension Fund	Stagehands Local Two Retirement Plan
EIN/Pension Plan Number	51-6120204/001	36-6099766/001
Expiration Date of Collective Bargaining Agreement	04/30/2012	06/30/2013
Opera Contributions –		
Fiscal 2012	\$828,435	\$776,454
Fiscal 2011	\$789,412	\$685,240
Plan Year-End of Most Recent Form 5500 Filing	03/31/2011	12/31/2010
PPA Zone Status –		
Most Recent Year	Red	Green
Two Years Prior	Red	Green
FIP/RP Status	Implemented	Not applicable
Surcharge Imposed	Yes	No
Opera Contributed more than 5% of Total Contributions	No	Yes

The Opera contributed a total of \$69,913 and \$67,862 to six other defined benefit multi-employer plans in 2012 and 2011, respectively. The Opera also contributed \$788,209 and \$782,382 to various defined contribution multi-employer plans in 2012 and 2011, respectively.

**Severance Benefits:** In addition to contributions to multi-employer retirement plans, the Opera provides severance benefits for the orchestra, chorus, production staff, and dancers. Severance benefits are based on a combination of wages, age, and length of service.

LYRIC OPERA OF CHICAGO  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE E – EMPLOYEE RETIREMENT BENEFITS** (Continued)

The change in benefit obligations and the funded status of the plans for the years ended April 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 3,215,979	\$ 3,364,739
Service cost	100,598	103,677
Interest cost	165,072	191,476
Actuarial loss (gain)	515,486	(369,094)
Benefits paid	<u>(342,005)</u>	<u>(74,819)</u>
Benefit obligation, end of year	<u>\$ 3,655,130</u>	<u>\$ 3,215,979</u>
Unfunded Status		
Projected benefit obligation	\$ (3,655,130)	\$ (3,215,979)
Fair value of assets	<u>-</u>	<u>-</u>
Funded Status	<u>\$ (3,655,130)</u>	<u>\$ (3,215,979)</u>

The components of net periodic benefit costs for the years ended April 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 100,598	\$ 103,677
Interest cost	165,072	191,476
Amortization of:		
Net transition obligation	19,382	19,382
Prior service cost	(28,825)	(28,825)
Net loss (gain)	<u>(2,865)</u>	<u>5,973</u>
Net periodic benefit cost	<u>\$ 253,362</u>	<u>\$ 291,683</u>

Severance costs not previously recognized as a component of the periodic severance cost, but included as a cumulative separate charge to net assets for the years ended April 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Net transition obligations	\$ 135,670	\$ 155,052
Prior service cost	(258,848)	(287,673)
Net actuarial loss (gain)	<u>409,892</u>	<u>(108,459)</u>
Net amount recognized	<u>\$ 286,714</u>	<u>\$ (241,080)</u>

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LYRIC OPERA OF CHICAGO  
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**NOTE E – EMPLOYEE RETIREMENT BENEFITS** (Continued)

Net periodic severance cost expected to be recognized in the next fiscal year is as follows:

	<u>2013</u>
Service cost	\$ 125,189
Interest cost	153,444
Amortization of:	
Net transition obligation	19,382
Prior service cost	(28,825)
Net gain	<u>10,233</u>
Net periodic benefit cost	<u>\$ 279,423</u>

The key actuarial assumptions used were:

	<u>2012</u>	<u>2011</u>
To determine benefit obligation:		
Discount rate	4.55%	5.60%
Expected rate of pay increases	2.50%	3.00%
To determine net periodic benefit:		
Discount rate	5.60%	6.00%
Expected rate of pay increases	3.00%	3.00%

Estimated benefit payments for future fiscal years are as follows:

2013	\$ 282,740
2014	302,053
2015	163,608
2016	218,785
2017	261,598
2018-2021	1,358,943

**NOTE F – RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS**

Restricted net assets are restricted for the following purposes:

	<u>2012</u>		<u>2011</u>	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Future operating support	\$ 40,850,691	\$ 22,713,532	\$ 46,792,287	\$ 22,691,021
Equipment	<u>2,969,508</u>	<u>-</u>	<u>2,684,169</u>	<u>-</u>
Total	<u>\$ 43,820,199</u>	<u>\$ 22,713,532</u>	<u>\$ 49,476,456</u>	<u>\$ 22,691,021</u>

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LYRIC OPERA OF CHICAGO  
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April 30, 2012 and 2011

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**NOTE F – RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS**

(Continued)

Temporarily restricted net assets are released from restrictions either by the passage of time or by the fulfillment of a purpose. Restrictions released during the year ended April 30, 2012 and 2011, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Time restrictions:		
Operating support	\$ 3,856,353	\$ 3,775,067
Purpose restrictions:		
Operating support	7,746,518	7,961,624
Equipment	<u>181,776</u>	<u>168,149</u>
	<u>7,928,294</u>	<u>8,129,773</u>
Total	<u>\$ 11,784,647</u>	<u>\$ 11,904,840</u>

**NOTE G – NATIONAL ENDOWMENT FOR THE ARTS (NEA) GRANT**

In fiscal 1991, the NEA awarded a \$1 million challenge grant to the Opera, and by fiscal 1992, all of the challenge grant and matching contributions of \$3 million were received. Under terms of the grant, unspent challenge grant and matching proceeds, along with investment income, are temporarily restricted until eligible production costs have been incurred. The fund was depleted in the year ended April 30, 2012 when \$723,980 was released into unrestricted net assets.

**NOTE H – CAMPAIGN FOR EXCELLENCE**

In November, 2005, the Board of Directors approved the establishment of a \$25 million campaign, known as the Campaign for Excellence (CFE), for the purpose of supporting the operations of the Opera. Management's use of CFE proceeds is subject to the oversight of the Finance Committee and approval of the Board of Directors. Gross pledges and gifts to CFE, which do not include radio broadcast support, totaled \$31.7 million at the conclusion of the campaign in early Fiscal 2008.

For the years ending April 30, 2012 and 2011, the Opera was authorized to appropriate \$3,745,682 and \$4,288,457, respectively, from CFE to support operations.

**NOTE I – BONDS PAYABLE**

On March 1, 1994, the Illinois Development Finance Authority (the Authority) issued and sold \$62.2 million aggregate principal amount of Variable/Fixed Rate Demand Revenue Bonds, Series 1994 (Lyric Opera of Chicago Project). Pursuant to a Loan Agreement dated as of February 1, 1994 between the Authority and the Opera, the Authority loaned the proceeds of the bonds to the Opera to provide funds to acquire, construct, renovate, remodel, and equip the facility used by the Opera in the production and performance of its programs, to pay interest on the bonds, and to pay certain costs incurred in connection with the issuance of the bonds. The bonds have adjustable methods of interest rate determination and interest payment. As of April 30, 2011, the bonds operated in a mode where the interest rate was established each week and interest on the bonds was payable monthly. On April 30, 2012, the interest rate was 0.24%.

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LYRIC OPERA OF CHICAGO  
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**NOTE I – BONDS PAYABLE (Continued)**

The Opera has agreed to certain financial and operating covenants in an agreement with certain banks providing a credit facility (letter of credit) in the amount of \$63 million which expires August 31, 2013. Under the terms of that agreement, should the bonds become unmarketable, the Opera would be required to pay off such amounts within two years. Interest on such amounts would not exceed the prime rate plus 2%.

Because these bonds operate in a floating interest rate mode and are remarketed at par value weekly, their carrying values approximate fair value.

On August 18, 2008, the Illinois Finance Authority (IFA) issued a \$3.5 million aggregate principal amount tax exempt Revenue Bond, Series 2008. Pursuant to the loan agreement, IFA loaned the proceeds of the bond to the Opera to provide funds to purchase, construct, and equip space for patron hospitality services, and to pay certain issuance costs incurred in connection with the issuance of the bond. The bond has a fixed interest rate of 4.8%, payable monthly.

Bond interest expense was \$252,877 and \$327,384 for the years ended April 30, 2012 and 2011, respectively.

Unamortized bond issuance costs were:

	<u>2012</u>	<u>2011</u>
Deferred bond issuance costs	\$ 2,347,620	\$ 2,347,620
Less: accumulated amortization	<u>1,245,053</u>	<u>1,167,996</u>
Net	<u>\$ 1,102,567</u>	<u>\$ 1,179,624</u>

Future debt maturities are as follows:

August 1, 2018	\$ 3,500,000
December 1, 2028	<u>62,200,000</u>
Total	<u>\$ 65,700,000</u>

**NOTE J – DERIVATIVE FINANCIAL INSTRUMENT**

On May 9, 2006, the Opera entered into an interest rate swap agreement with the Bank of New York Mellon (BNYM) in order to hedge overall exposure to variable rate debt. The Opera has agreed to pay BNYM interest at a fixed rate of 3.804% with the counterparty paying the Opera a floating rate based on 67% of one-month LIBOR. The interest rate swap agreement has a notional amount of \$40 million and expires December 1, 2028, and has no requirements for collateral posting. The Opera may terminate the interest rate swap early.

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**NOTE J – DERIVATIVE FINANCIAL INSTRUMENT** (Continued)

Summary information about the interest rate swap agreement as of April 30, 2012 and April 30, 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Weighted average pay rates (fixed)	3.804%	3.804%
Weighted average one-month LIBOR (variable)	0.239%	0.210%

The interest rate swap is recorded at fair value as a liability on the statement of financial position. Interest expense, settled on a net basis, was \$1,458,886 and \$1,447,642 for the years ended April 30, 2012 and April 30, 2011, respectively.

**NOTE K – COMMITMENTS**

Contracts with Performers and Unions: Future commitments to principal artists are approximately \$5.8 million in 2012-13; \$4.4 million in 2013-14; \$3.2 million in 2014-15; \$1.5 million in 2015-16 and \$0.1 million in 2016-17.

The Opera has collective bargaining agreements with numerous unions. Contracts with the American Guild of Musical Artists (AGMA), which represents principal artists, choristers, ballet, and production staff, the Chicago Federation of Musicians (CFM), which represents the orchestra, and the International Alliance of Theatrical Stage Employees, which represents stagehands, expire April 30, 2012, April 30, 2012, and June 30, 2013, respectively. Negotiations for new collective bargaining agreements between AGMA and the Opera and CFM and the Opera are in progress.

The Opera has personal service contracts with five individuals through June 30, 2021. The contracts call for annual salary and other benefits.

**NOTE L – RELATED PARTIES, CONFLICTS OF INTEREST AND CODE OF CONDUCT**

The Opera maintains a Conflict of Interest Policy which applies to all Directors, officers of auxiliary organizations authorized by the Opera as well as senior management and other designated members of staff. The Policy requires each person to whom the policy applies complete an annual disclosure statement which identifies a business or financial interest related to that person and which is planning to engage in a business transaction with the Opera or has engaged in a business transaction with the Opera during the preceding year.

The Policy forbids such individuals from voting on or using their personal influence in connection with such transactions. In the event the Opera does conduct business with a related party, the financial terms of those relationships are reported annually to the Audit Committee, whose members must be independent per the terms of its charter.

The Opera requires each Administrative employee conduct themselves in accordance with the Code of Business Conduct and Ethics approved by the Opera's Board of Directors and sign an annual statement acknowledging their understanding of this Code.

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**NOTE M – SUBSEQUENT EVENT**

Management has performed an analysis of the activities and transactions subsequent to April 30, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended April 30, 2012. Management has performed their analysis through July 19, 2012, the date the financial statements were issued. Activities subsequent to this date have not been evaluated by management.